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CALIFORNIA MEDICAL ASSISTANCE COMMISSION

State Capitol, Room 113

Sacramento, CA

Minutes of Meeting

January 13, 2005

COMMISSIONERS PRESENT
Nancy E. McFadden, Chair
Thomas Calderon
Diane M. Griffiths
Teresa P. Hughes
Vicki Marti
Lynn Schenk
Michael R. Yamaki

CMAC STAFF PRESENT
J. Keith Berger, Executive Director
Enid Barnes
Theresa Bueno
Paul Cerles
Denise DeTrano
Holland Golec
Shivani Nath
Steve Soto
Michael Tagupa
Mervin Tamai
Karen Thalhammer

EX-OFFICIO MEMBERS PRESENT
Tony Mader, Department of Finance
Sunni Burns, Department of Health Services

I. Call to Order

The January 13, 2005 open session meeting of the California Medical Assistance Commission (CMAC) was called to order by Chair Nancy E. McFadden. A quorum was present.

II. Approval of Minutes

The December 9, 2004 meeting minutes were approved as prepared by CMAC staff.

III. Executive Director's Report

Mr. Berger reported that there are no new requests from hospitals or health plans to appear before the Commission in closed session. Mr. Berger reminded the Commissioners that at the last meeting they had approved Children's Hospital and Research Center at Oakland to appear today and Children's Hospital of Los Angeles and Children's Hospital of Central California to appear before the Commission in closed session on January 27.

The Executive Director informed the Commission that representatives from Children's Hospital and Research Center at Oakland are present and prepared to discuss contract and negotiation issues with the Commissioners in today's closed session. Mr. Berger further noted that there are nine amendments and new contracts before the Commission for action, as well as a number of negotiation updates and issues to be discussed during today's closed session.

Mr. Berger noted that the Governor's Budget came out a few days ago and that he has asked Bob Sands from the Department of Finance to give the Commission a brief presentation on the Medi-Cal portion of the Budget. Mr. Sands is not present today, but plans on being present during the open session at the January 27 Commission meeting and has agreed to provide a brief overview.

Mr. Berger indicated that the Medi-Cal Redesign proposal is a major part of the Governor's Budget. René Mollow, Assistant Director for Health Policy for the Department of Health Services (DHS), will be here to give the Commission a briefing on the Medi-Cal Redesign proposal during today's open session. He further indicated that there is a Medi-Cal Redesign briefing today, January 13, at 1:00 pm at the DHS auditorium. He reported that one can also call in to listen to the briefing on the Medi-Cal Redesign proposal. Mr. Berger noted that a second briefing is scheduled in Los Angeles (LA) on January 21, 2005 at the LA County Board of Supervisors Board Room. Kimberly Belshé, Secretary for Health and Human Services Agency, and Sandra Shewry, Director for DHS, will be giving the overview of the Medi-Cal Redesign. A portion of the Medi-Cal Redesign is the hospital financing proposal. Ms. Burns has provided the Commission with updates on the proposal.

Ms. Burns indicated that she did not have a lot to report at this time, however she did state that DHS staff went back to Baltimore to meet with the Centers for Medicare & Medicaid Services (CMS) staff several weeks ago, they presented the proposal to CMS and CMS, had a lot of questions regarding the proposal. DHS and CMAC have responded to the many questions raised by CMS.

Ms. Burns further indicated that CMS has a counterproposal for the state; however, DHS has not yet received it. Time is of the essence and DHS can't move forward until DHS has received and reviewed the counterproposal from CMS.

Ms. Burns noted that DHS received a letter from the Disproportionate Share Hospital (DSH) Task Force with several questions regarding the Medi-Cal Redesign, and DHS is in the process of responding to their questions.

IV. Medi-Cal Managed Care Activities

Mr. Berger indicated that there is nothing new to report at this time.

V. Appearance by California Children's Hospital Association (CCHA)

Sue Maddox, President & Chief Executive Officer for CCHA, thanked the Commission for the many opportunities she has had to appear before the Commission. She indicated that this is her 11th year. Ms. Maddox introduced Sandra Bemiss, Chief Financial Officer for Children's Hospital and Research Center at Oakland, who joined her for the presentation.

Ms. Maddox reported that there are eight children's hospitals in California, and that CCHA's facilities provide the most intensive levels of pediatric care in the State. She noted that children's hospitals are more like public hospitals than other non-profit hospitals because of their high percentage of public patients. Over 50 percent of the children that are treated are Medi-Cal eligible, and CCHA hospitals are the last resort for kids, as county hospitals are for adults.

Ms. Maddox described briefly what children's hospitals do, including the types and number of patients treated, the range of services provided, physician and nurses training programs, and pediatric medical research activities. She emphasized that the eight children's hospitals provide almost half of the inpatient care for all Medi-Cal children as well as most of the heart surgeries and organ transplants provided to children in California. Ms. Maddox and Ms. Bemiss also responded to several questions from Commissioner Calderon regarding outpatient services.

Ms. Maddox indicated that the DSH, SB 1255 (Welfare and Institutions Code Section 14085.6) and Graduate Medical Education (GME) supplemental programs are CCHA's financial pillars. She stated though, that even with DSH payments, children's hospitals face an annual shortfall of approximately $250 million.

Ms. Maddox said CCHA is concerned that the proposed changes in the State's Medi-Cal Redesign proposal threaten CCHA hospital's financial foundation. California's population boom has led to more children needing access to care.

Commissioner Calderon and Chair McFadden asked Ms. Burns of DHS several questions regarding how children's hospitals are proposed to be treated under Medi-Cal Redesign and what the expectation was under the Medi-Cal Redesign proposal for children's hospitals survival.

Ms. Burns stated that children's hospitals are not treated as public hospitals because they do not meet the definition of a public entity. She said that the expectation is that children's hospital funding would not be cut, but that if the state continues with the current funding mechanisms, the children's hospitals could possibly see funding cuts.

The state's goal is to keep everyone whole and provide for growth through the redesign proposal.

Ms. Maddox stated that the population of children has nearly doubled in the last twenty-five years. This leads to more children needing access to the care provided at children's hospitals, but many children's hospitals have not had major expansion for decades, making them unable to accommodate the growth.

In 2004 CCHA went to the voters for assistance in addressing the need for facility expansion and improvement and to address financial challenges and the increasing demand for services. The *Children's Hospital Bond Act (Proposition 61),* was approved last November. By law, Ms. Maddox said the funds cannot be used for operational expenses or for paying of treatment and care of patients, and are not intended to supplement any other state, federal, local or private funding stream, including reimbursement for providing care.

Ms. Maddox then highlighted some of the challenges for CCHA hospitals in the year ahead including: 1) SB 1255 uncertainty due to Upper Payment Limits (UPL) transition and waiver negotiations, 2) the DSH payment and Medi-Cal hospital refinancing impact, 3) inadequate Medi-Cal outpatient reimbursement rates, 4) proposed decreases in federal funding for Medicaid, 5) continued nursing shortages and 6) inadequate physician Medi-Cal reimbursement.

Ms. Maddox further noted that each children's hospital is unique and has its own needs, which is why each hospital meets individually with CMAC. In general, CCHA has provided CMAC with a list of possible ways that CCHA and CMAC can work together to address some of the needs of children's hospitals, including 1) rate increases, 2) creative solutions through children's hospital pilots and demonstrations, 3) alternative payment options, 4) an improved methodology for allowable cost reporting for children's hospitals, and 5) SB 1255 and GME program payment increases.

In concluding her report, Ms. Maddox noted that she is available for any questions and thanked the Commissioners for allowing her to come before the Commission once more to give her presentation today.

In response to a question from Chair McFadden, Ms. Bemiss stated that Sue Maddox had done a great job in putting Proposition 61 into laymen's terms. Ms. Bemiss said that the share for her facility is going to be roughly $74 million, but that the cost for doing only the minimum required seismic upgrades will far exceed that amount.

Ms. Maddox re-emphasized that Proposition 61 funding will not help with the operational costs. In fact, she said, it is going to add more operating costs to the hospitals' bottom lines. A copy of Ms. Maddox's presentation handout documents are available by contacting CMAC.

The Executive Director stated to the Commissioners that associated with Ms. Maddox's presentation on Proposition 61, Ms. Sandra Simpson-Fontaine, Executive Director for California Health Facilities Financing Authority (CHFFA), is here today to give the Commission a brief overview of Proposition 61.

Ms. Simpson-Fontaine noted that Proposition 61 charges CHFFA with developing a $750 million grant program for eligible children's hospitals. She said CHFFA staff is in the process of finalizing regulations establishing the basic framework of the program. Ms. Simpson-Fontaine indicated that in developing the regulations, CHFFA has received input from all eligible hospitals, appropriate state agencies, and outside bond counsel to accurately time the bond issues in connection with proposed projects to reduce funding delays, to conform to tax laws, to adhere to the spirit of the initiative, and to set proper expectations for the program.

It should be noted, Ms. Simpson-Fontaine said, that the Children's Hospital Bond Act of 2004 (Proposition 61) represents virgin territory for the State of California, and perhaps the counties. The bond act requires the sale of $750 million in General Obligation Bonds to fund, through grants, capital projects at thirteen Children's Hospitals in the state. Therefore, CHFFA is working diligently to create a program that efficiently funds those eligible projects while limiting the long-term costs to the people of the State of California.

Ms. Simpson-Fontaine reported that since the passage of Proposition 61, the Children's Hospital Bond Act, CHFFA has distributed four official drafts of the regulations for the Program. CHFFA intends to distribute its final draft of the regulations on January 20, 2005. The CHFFA Board will meet on January 27 to take public comments on the final draft and expects to approve the regulations on that date. The regulations will then be forwarded to the Office of Administrative Law as emergency regulations.

Ms. Simpson-Fontaine indicated that there are five University of California hospitals that are eligible and that the definition provided for private, non-profit hospitals includes eight hospitals in the state that are represented by CCHA. The definition of eligible projects and maximum grants in the proposition make the private children's hospitals eligible for a maximum grant per hospital of $74 million, and the UC hospitals are limited to $30 million each. In concluding her report, Ms Simpson-Fontaine outlined some of the application evaluation criteria that have been developed.

Ms. Simpson-Fontaine responded to Commissioner Schenk's question regarding a timeline, stating that it will be scheduled based upon when the projects are planning to

come online. The applications will be available in early February 2005. CHFFA will then have a better sense from the hospitals as to how quickly the hospitals will need funding.

In response to Chair McFadden's question, Ms. Simpson-Fontaine stated that the hospitals may apply for the grants any time up to the year 2017.

In response to Commissioner Griffiths' inquiry, Ms. Simpson-Fontaine indicated that there have been a number of controversies, but for the most part, CHFFA has worked them out. She said the draft regulations that will be issued January 20, 2005 will reflect some of the recommendations and comments that CHFFA has received. Chair McFadden thanked Ms. Simpson-Fontaine for taking the time to talk with the Commissioners.

Mr. Berger indicated that René Mollow from DHS was present and prepared to give the Commission a brief overview of the new Medi-Cal Redesign program.

René Mollow, Associate Director of Health Policy for DHS, indicated that the Medi-Cal Redesign proposal was released on Monday, January 10, 2005. The DHS website (www.medi-calredesign.org) has the full proposal as well as a two-page, fact sheet. There are five primary policy initiatives that DHS has put forward with the Medi-Cal Redesign.

Ms. Mollow remarked that the development of this proposal came about, in part, due to the work that was undertaken and the feedback that DHS received during the stakeholder process that occurred last year. Approximately 20-25 stakeholder meetings were held throughout the state in the past year.

Ms. Mollow indicated that the first major component of the proposal deals with the expansion of Medi-Cal Managed Care. There are three primary models of Medi-Cal Managed Care, these are the Geographic Managed Care (GMC), the Two Plan Model, and the County Organized Health System (COHS) plan. With the Managed Care expansion proposal, the state is seeking to expand the use of the COHS and the GMC models in 13 additional counties throughout the state. In addition, certain seniors and persons with disabilities will now be required to enroll in Managed Care plans in all counties in which Medical Managed Care is available.

The state is also looking at implementing acute long-term care integration projects in three counties that would allow individuals to select home and community-based services instead of nursing facility care whenever possible.

Ms. Mollow indicated that the state is looking at implementing the Managed Care expansion proposal through a phased-in process, over a twelve-to eighteen-month period, commencing January 1, 2007.

In total, the state is expecting to enroll an additional 262,000 parents and children and about 554,000 seniors and persons with disabilities. In the Medi-Cal fee-for-

service program, the state would maintain a population of about 2 million persons, about one million being those with Medi-Cal/Medicare eligibility, including seniors and persons with disabilities.

Ms. Mollow said a second component of the Medi-Cal Redesign is to stabilize the financing of California's safety net hospitals. The state has submitted a proposal to the federal government to seek a five-year waiver for hospital financing that would decrease the utilization of the intergovernmental transfer program and replace some of the current hospital funding methods with new systems that create opportunities to draw down additional federal dollars. Other Medi-Cal Redesign components briefly described by Ms. Mollow included: 1) modifying the Medi-Cal benefit package to limit adult dental services to $1,000 per year, 2) implementing small monthly premiums for beneficiaries with income above the federal poverty level, and 3) improve eligibility and provide enrollment processing.

Ms. Mollow concluded her presentation of the Medi-Cal Redesign proposal by going over the estimated cost impact of the proposals and reminding the Commissioners and others present that there is a formal briefing scheduled this afternoon in the DHS Auditorium.

At this time, a number of Commissioners voiced their concerns regarding various aspects of the new Medi-Cal Redesign proposals including: 1) the difficulties faced by senior citizens if they are forced to change doctors because of a requirement to enroll in a Managed Care plan, 2) the number of beneficiaries who may drop their eligibility because they feel they cannot pay the monthly premium, 3) the impact of the changes to families, children, and children's hospitals, and 4) concerns about continuity of care. Chair McFadden then thanked Ms. Mollow for her presentation.

VI. New Business/Public Comments/Adjournment

There being no further new business and no additional comments from the public, Chair Nancy McFadden recessed the open session. Chair McFadden opened the closed session, and after closed session items were addressed, adjourned the closed session, at which time the Commission reconvened in open session. Chair McFadden announced that the Commission had taken action on hospital and managed care contracts and amendments in closed session. The open session was then adjourned.